

Current and Future Trends in Housing

The Economics of Land Use



Berkeley
Sacramento
Denver

presented to

Colorado Housing Now

presented by

Andrew Knudtsen

Principal, EPS

October 13, 2010

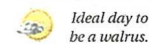
Economic & Planning Systems, Inc.
730 17th Street Suite 630 Denver, CO
303-623-3557 • 303-623-9049 fax

Data are widely available.....

.....but interpretation and application are highly challenging



WEATHER Page B16

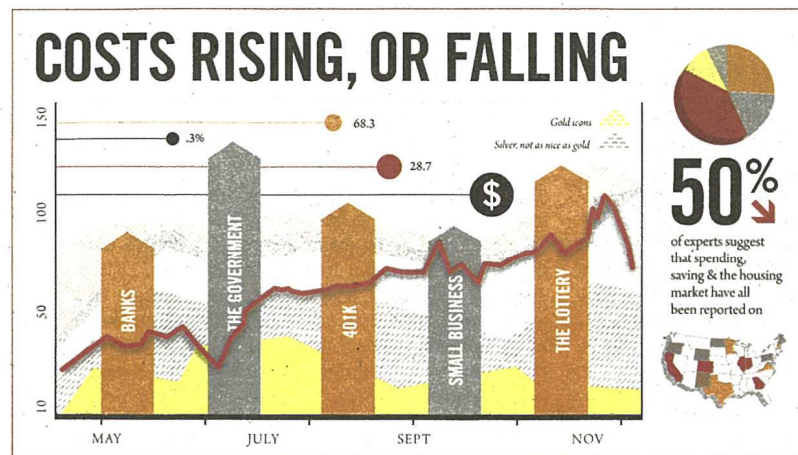


LOW 79 HIGH 82

AMERICA'S FINEST NEWS SOURCE · ONION.COM

Copyright ©2010 Onion, Inc. All Rights Reserved | DEN

Something About Tax Cuts Or Earnings Or Money Or Something In Recent Economic News



WASHINGTON—Some sort of tax cut or earnings or money or something was reported in economic news this week in further evidence that a lot of financial-related things have been going on lately.

According to numerous articles and economics segments from major media outlets, experts on banks and such have become increasingly concerned over a new extension or rates or a proposal or compromise that could signal fewer investments, and dollars, and so on.

The experts confirmed that the

stimulus has played a role.

"This is a clear sign of a changing cycle," some top guy at one of the big banks in New York said of purchasing power parity or possibly rate of return during a recent interview on CNN. "Which isn't to say that a sustained drop in wages couldn't still occur, even if the interest paid on reserves is lowered."

"In short, it's possible but not probable that growth could outpace our initial expectations," added the banking guy, who went on to say other money things,

see **ECONOMIC**, page 6

Presentation Overview

- Market Demand
- Ownership Trends
- Rental Trends
- Commercial Markets
- Factors Affecting Housing Demand

Overview of Market Demand

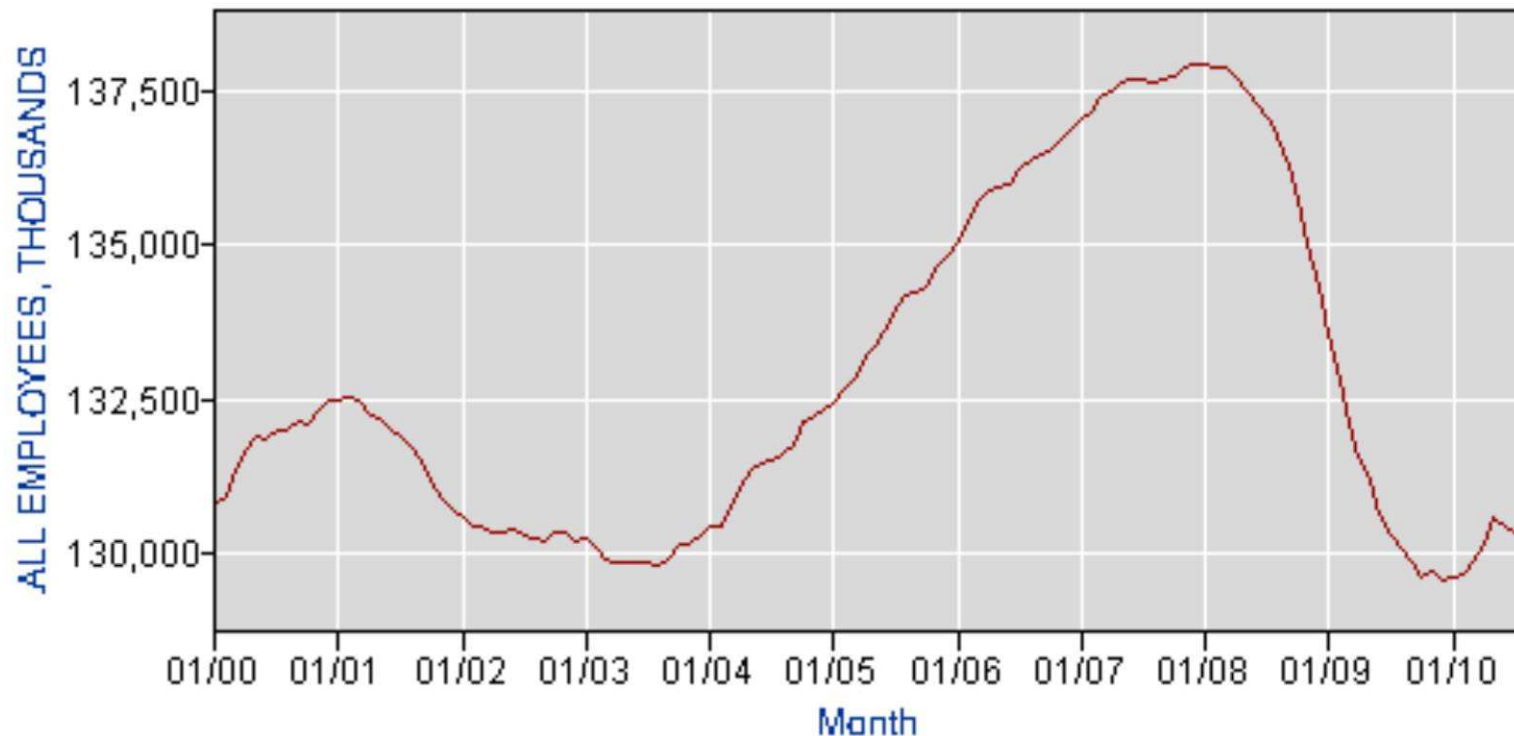
- Central questions about the market –
 - When will demand rebound?
 - When will financial markets return?
 - How quickly will this occur?
- Market fundamentals
 - Supply and Demand
 - Major differences by market type
 - What are best indicators by market type
 - Retail – Expenditure Level
 - Office – Net employment
 - Housing – Net migration flow & birth rate
 - Supply has outpaced demand for three to five years
 - Pricing
 - Absorption

Macroeconomic Forecast—Where Is It Going from Here?

- The Worst Case—the “global meltdown” scenario, a broad asset devaluation “depression” caused by a collapse of credit and contraction of international trade—appears to have been averted by government action.
- Economic Recovery during 2010 has been tepid at best, raising concerns about a “double dip” recession early in 2011. Recently, forecasters have consistently delayed sustained expansion to 2012 or beyond.
- There is a likelihood of the “Japan” scenario—a protracted (10-year plus) period of economic weakness in the U.S. expressed as continuing high household debt burdens, little or no economic expansion, high structural unemployment, tight credit, and volatile and underperforming equity markets.
- The full impacts of the Japan scenario upon the U.S. over the next decade have not been fully evaluated or revealed. A substantial socioeconomic restructuring, a “new normal,” is likely.

Macroeconomic Forecast—Where Is It Going from Here? *(continued)*

U.S. Total Employment, 2000–2010

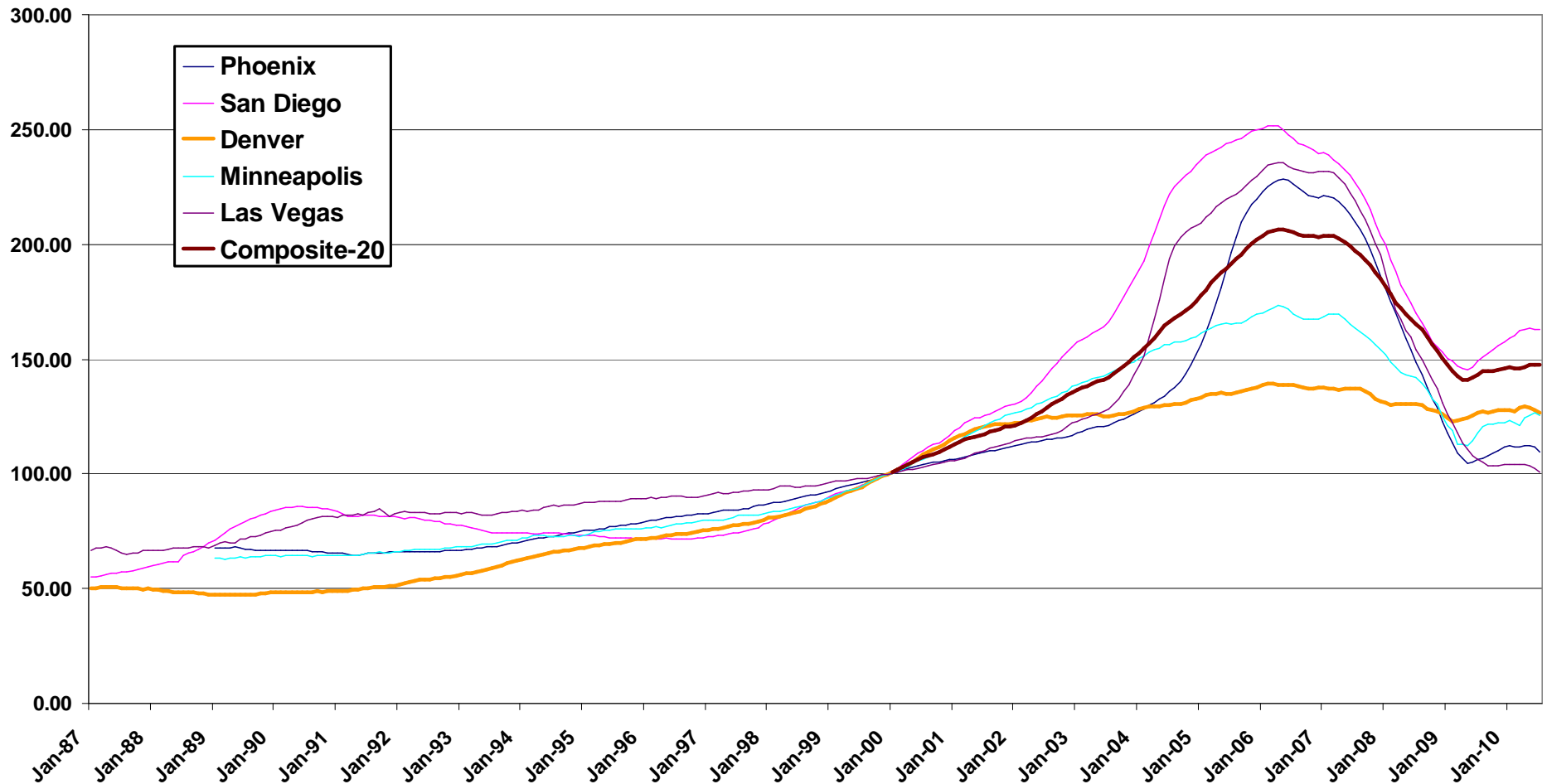


Source: Bureau of Labor Statistics



Residential Ownership Markets

S & P/Case-Schiller Home Price Index



Peak to Trough Pricing

Denver Bottomed March 2009
National Composite Bottomed May 2009
Some have not reached bottom
Denver Recovered earlier, from a more reasonable peak

March 2006 - Feb 2010

Phoenix	50%
San Diego	41%
Denver	12%
Minneapolis	31%
Las Vegas	48%
Composite-20	30%

Mid 2007 to Late 2010

Aspen	30%
Telluride	55%
Vail	40%
Avon	43%
Snowmass	43%



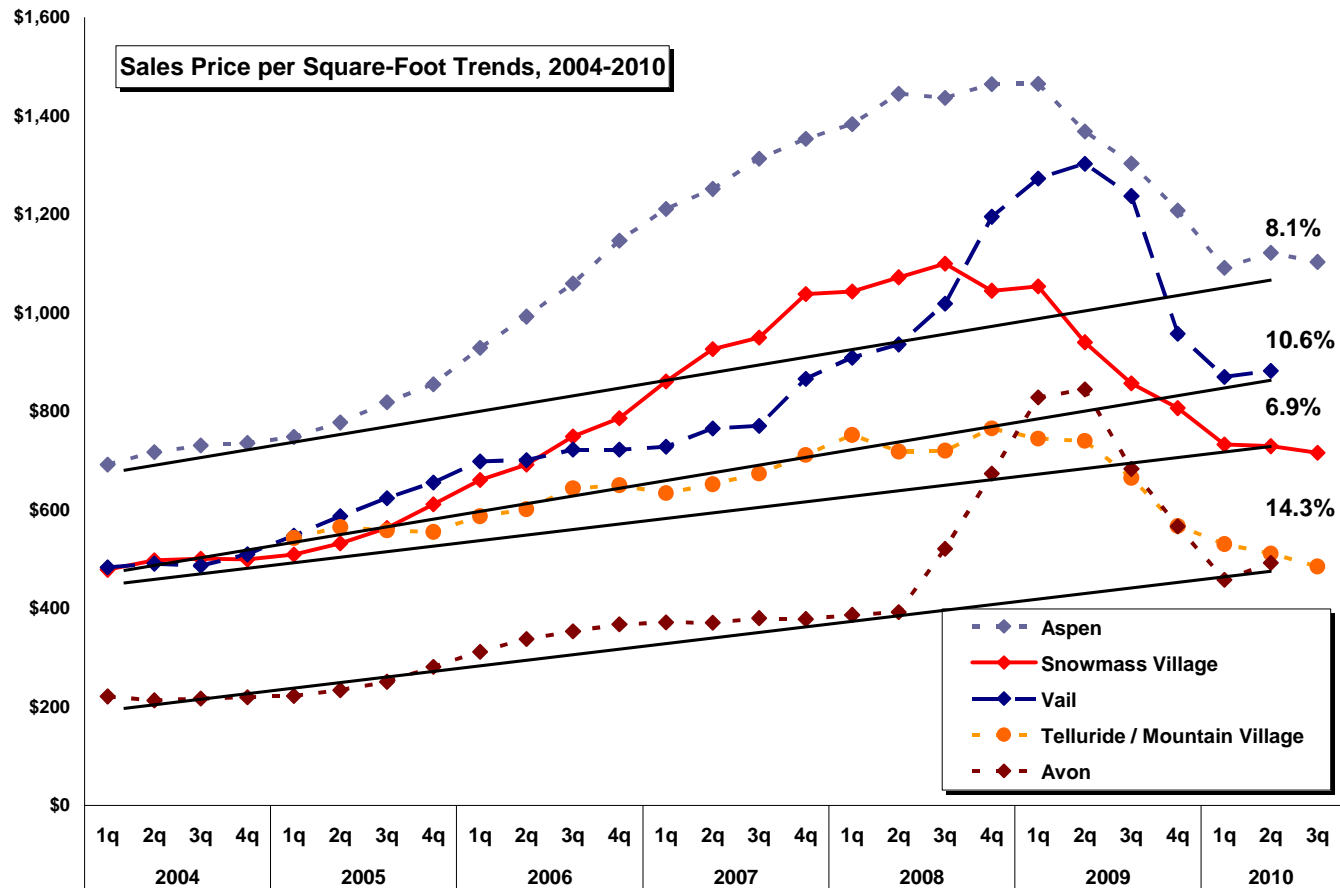
Residential

- 4550 Cherry Creek
 - Glendale, CO
 - Size 288 Units
 - Year Built 2003
- Sale#1
 - May 2005
 - \$78 Million
 - \$271,000 per unit
- Sale #2
 - January 2010
 - \$52 Million
 - \$181,000 per unit
- **33 Percent from Peak**



Source: National Valuation Consultants, Inc.

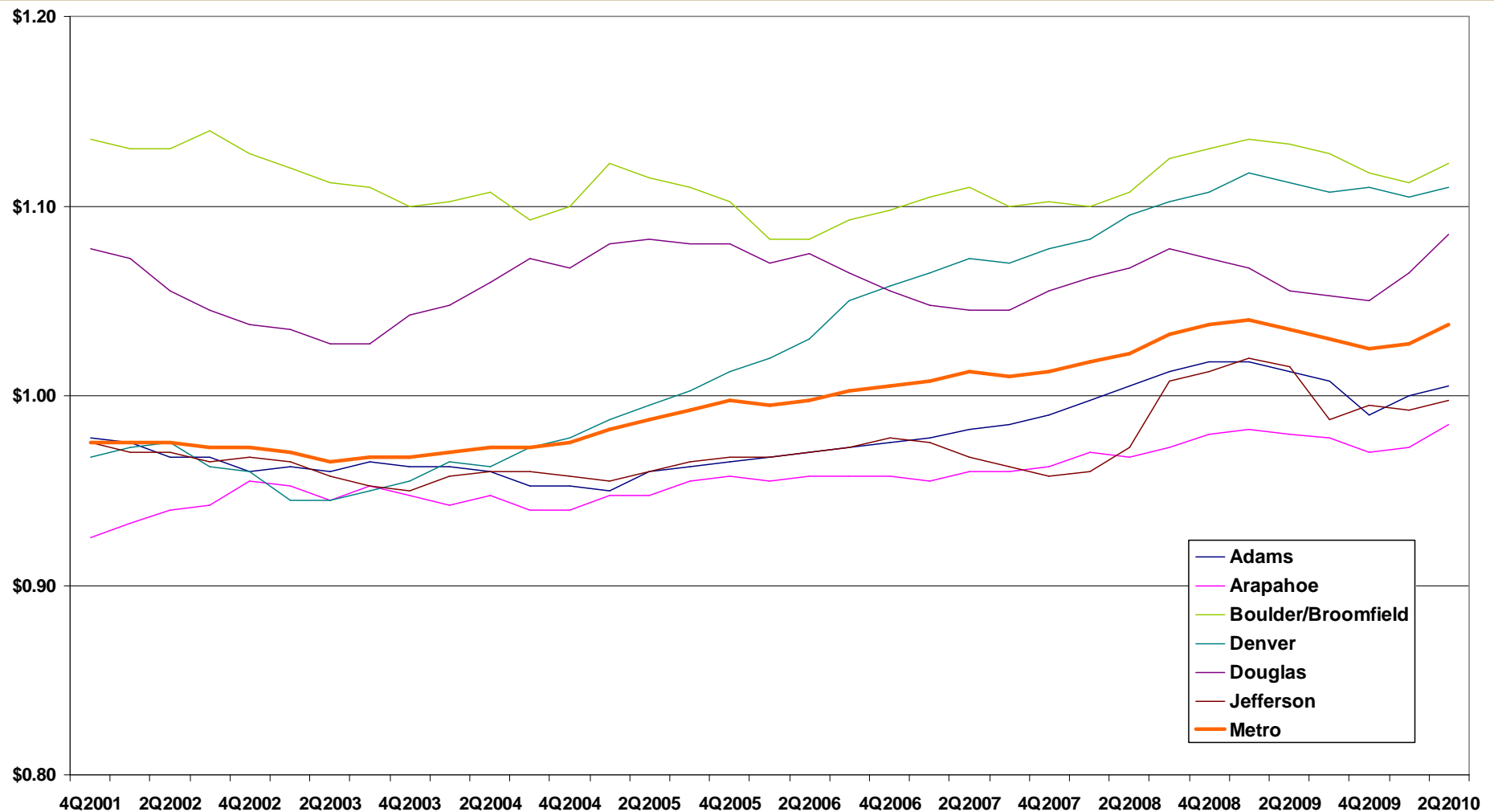
Sales Price Trends (per SF), 2004-2010





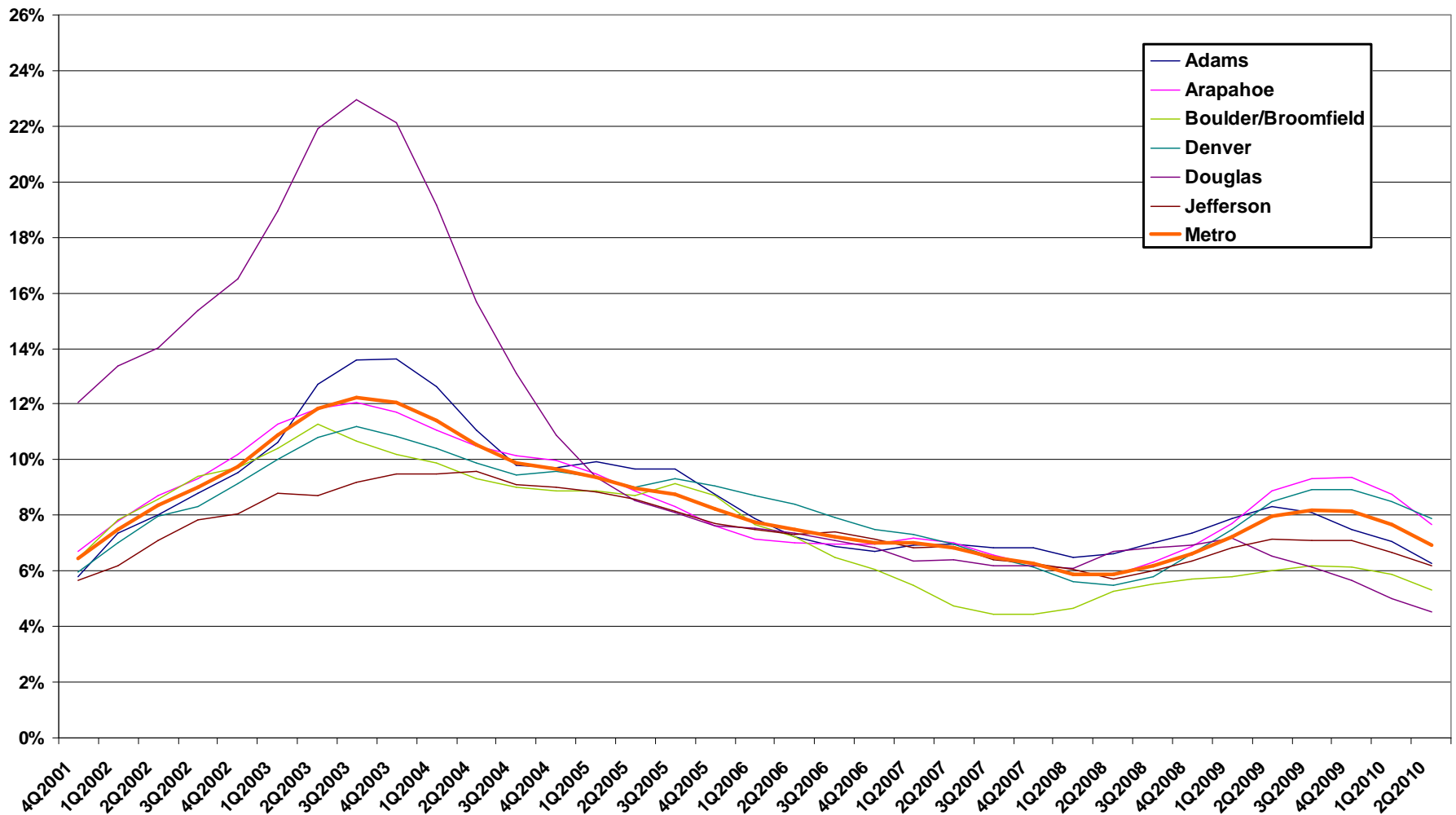
Residential Rental Markets

Metro Denver MF Rent (\$/Sq. Ft.) (4Q Trailing)



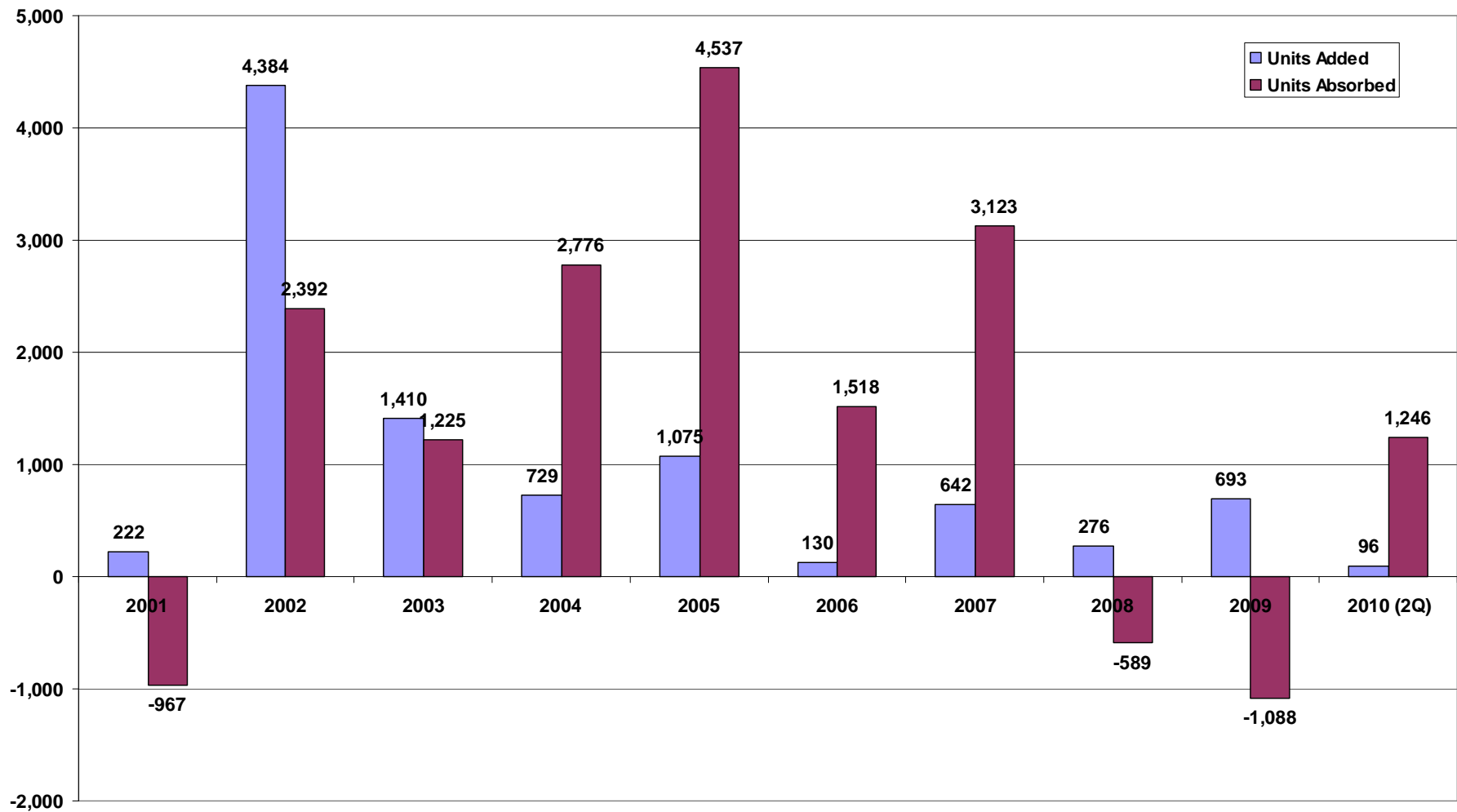
Source: Von Stroh

Metro Denver Vacancy (%) (4Q Trailing)



Source: Von Stroh

Metro Denver Rental Unit Production (2001-2Q2010)

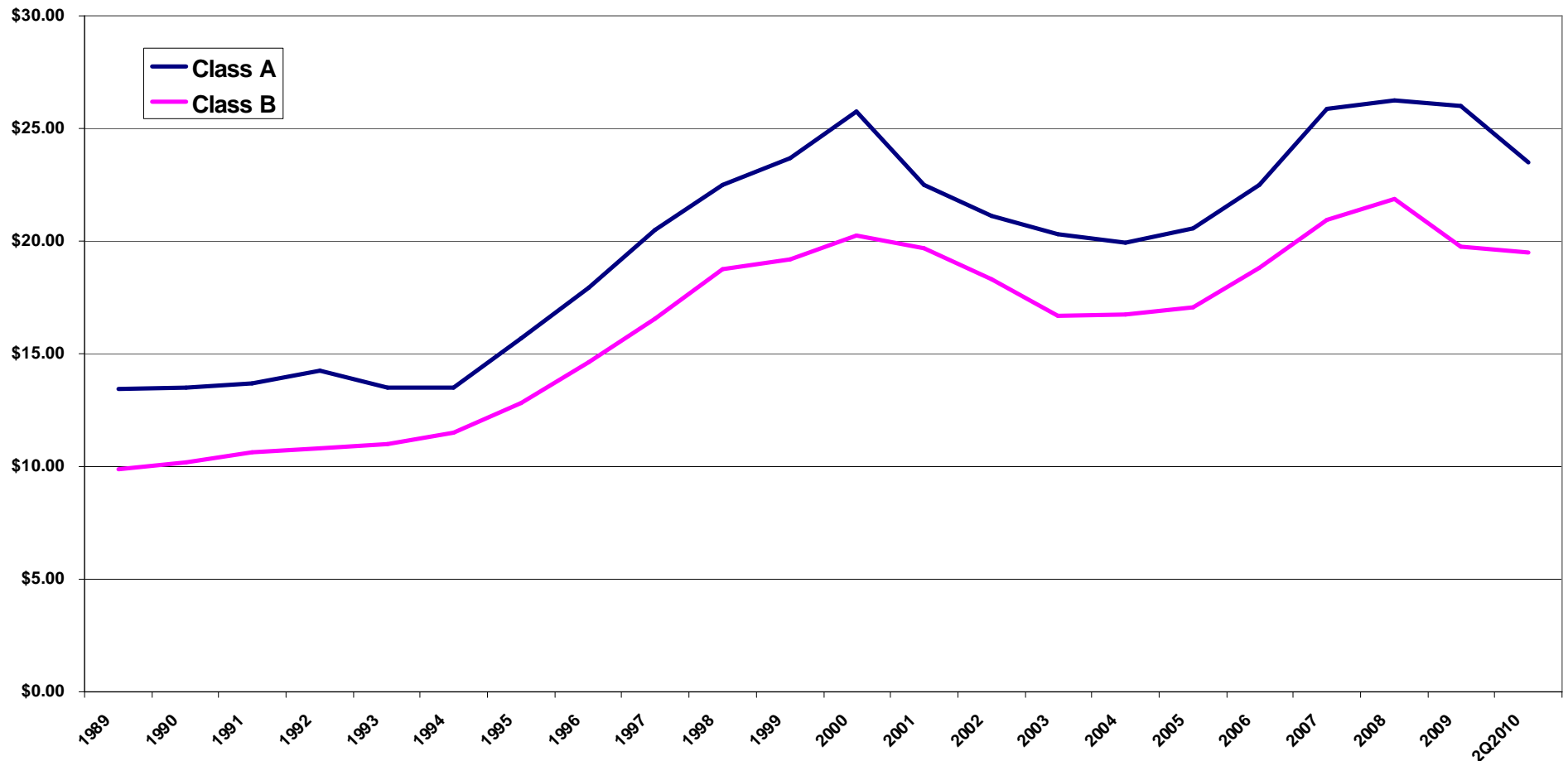


Source: Von Stroh Apartment Vacancy & Rent Survey



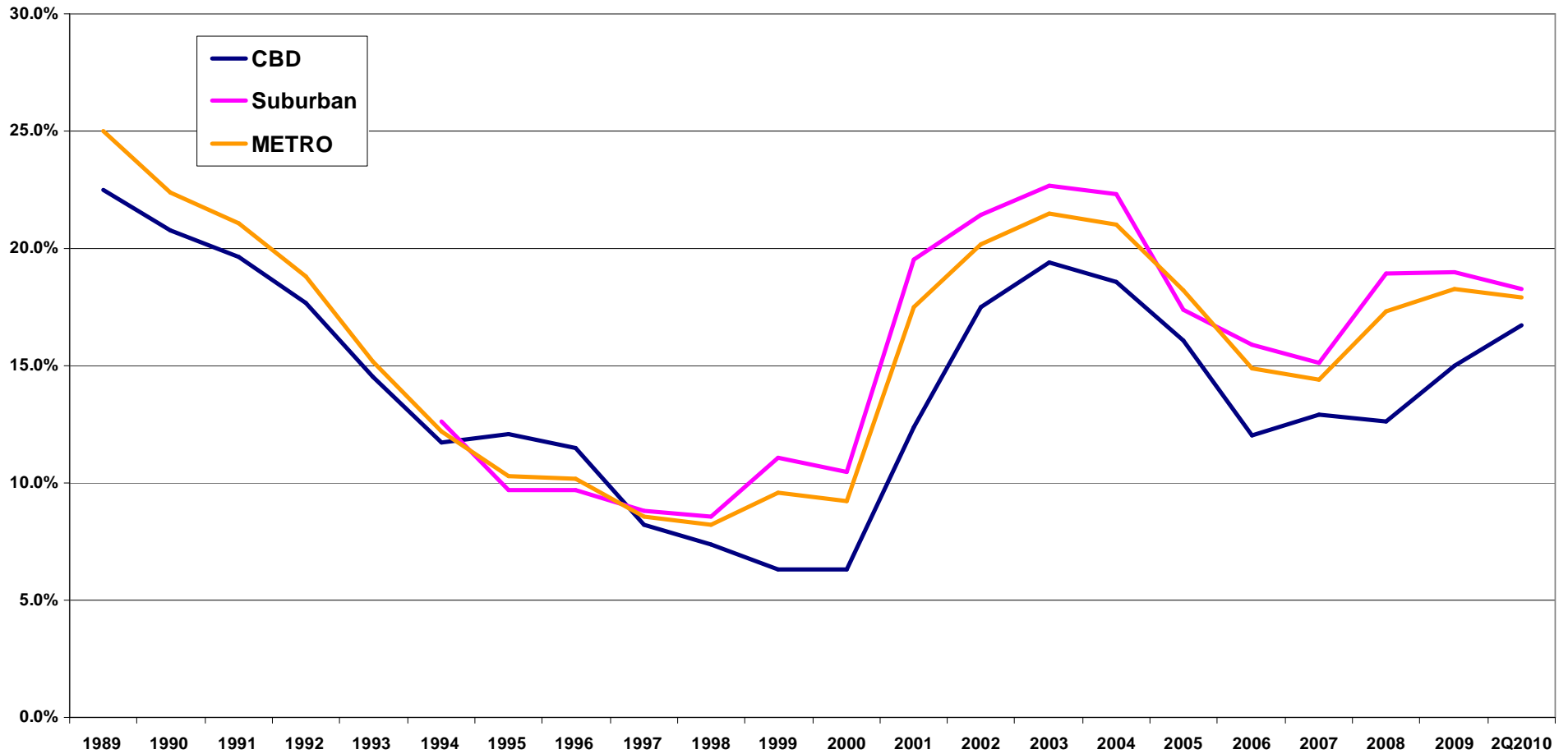
Commercial Markets

Metro Denver Office Gross Rent (\$/Sq. Ft.)



Source: Grubb & Ellis

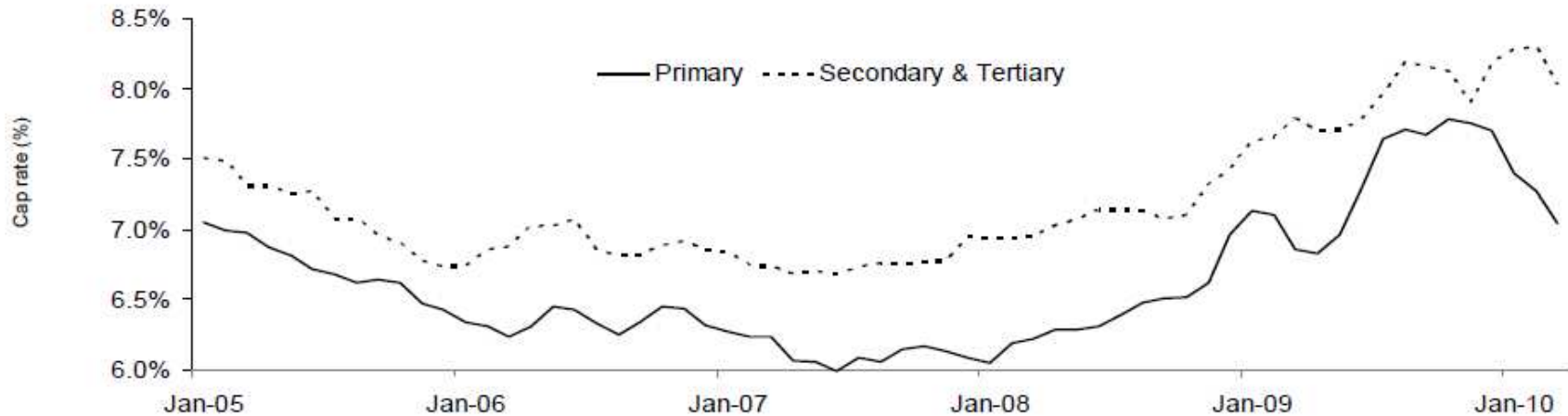
Metro Denver Office Vacancy (%)



Source: Grubb & Ellis

Cap Rates by Primary and Secondary Markets

Monthly core property cap rates by market type – 3 month rolling average



Source: Real Capital Analytics; JP Morgan

Retail

- Market at Southpark
 - Littleton, CO
 - Size 190,000 Sq. Ft.
 - Year Built 1998
 - Anchors King Soopers, Big Lots, Office Depot
- Sale #1
 - September 2004
 - \$33.4 Million
 - 6.0 percent Cap Rate
- Sale #2
 - June 2010
 - \$22 Million
 - 8.8 percent Cap Rate
- **34 Percent from Peak**



Source: National Valuation Consultants, Inc.

Office

- One Sansome Plaza
 - San Francisco, CA
 - Size 570,000 Sq. Ft.
 - 43 Stories
- Sale#1
 - May 2007
 - \$308 Million
- Sale #2
 - June 2010
 - \$190 Million
- **38 Percent from Peak**



Source: National Valuation Consultants, Inc.

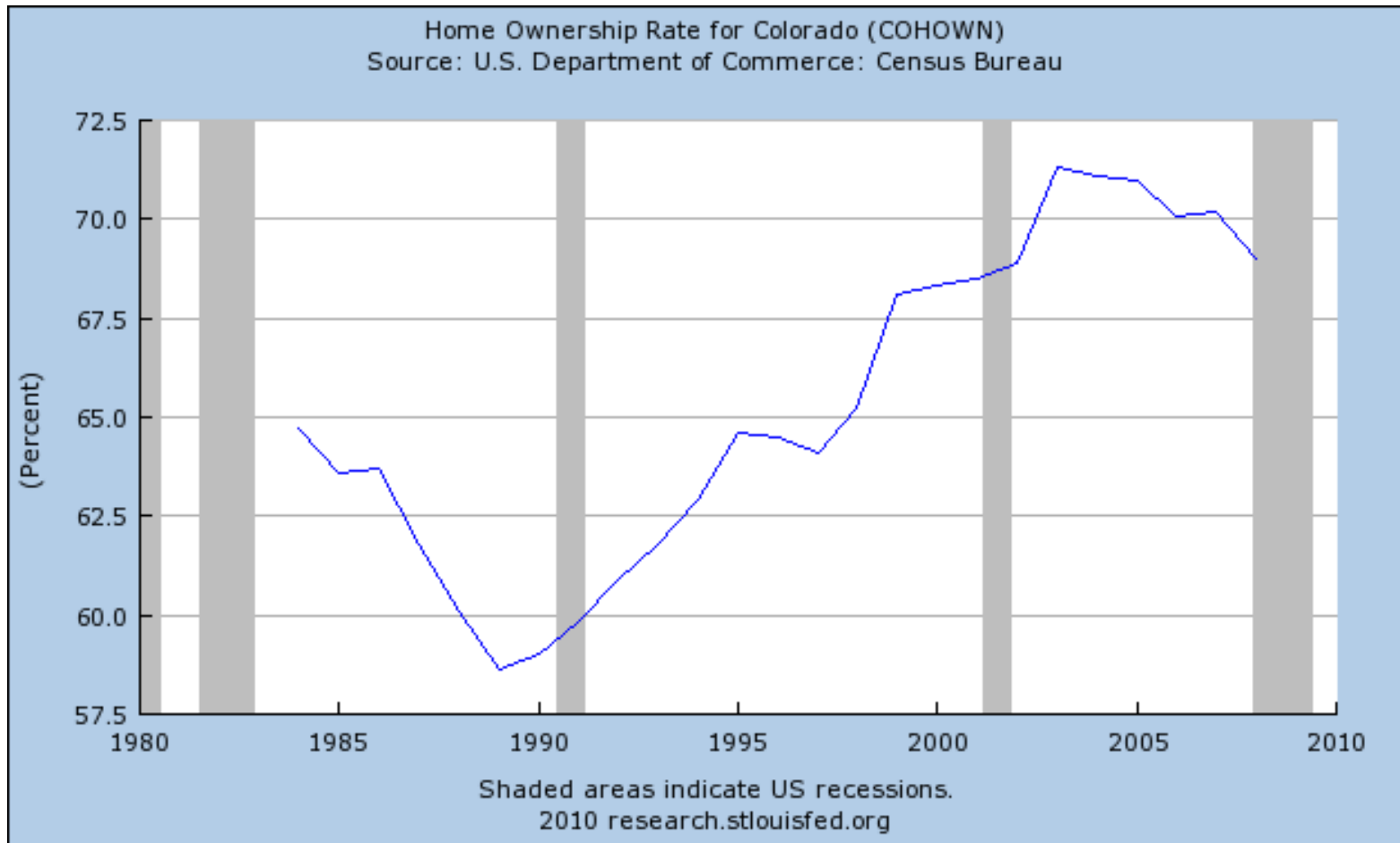


Factors Affecting Affordable Housing Demand

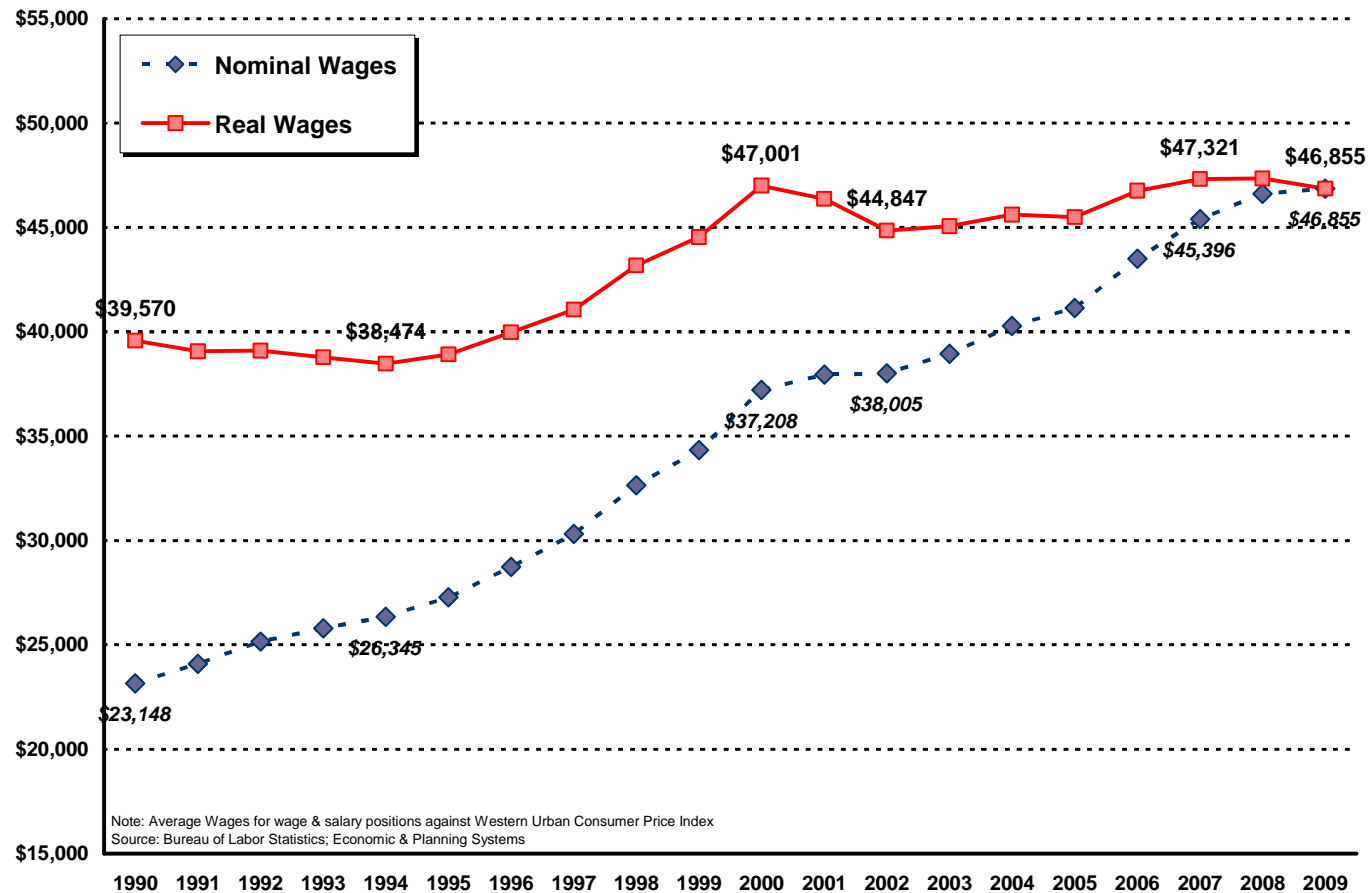
Factors Affecting Affordability

- Income
- Productivity
- Financing Availability
- Rate of Home Ownership
- $H + T$ Costs

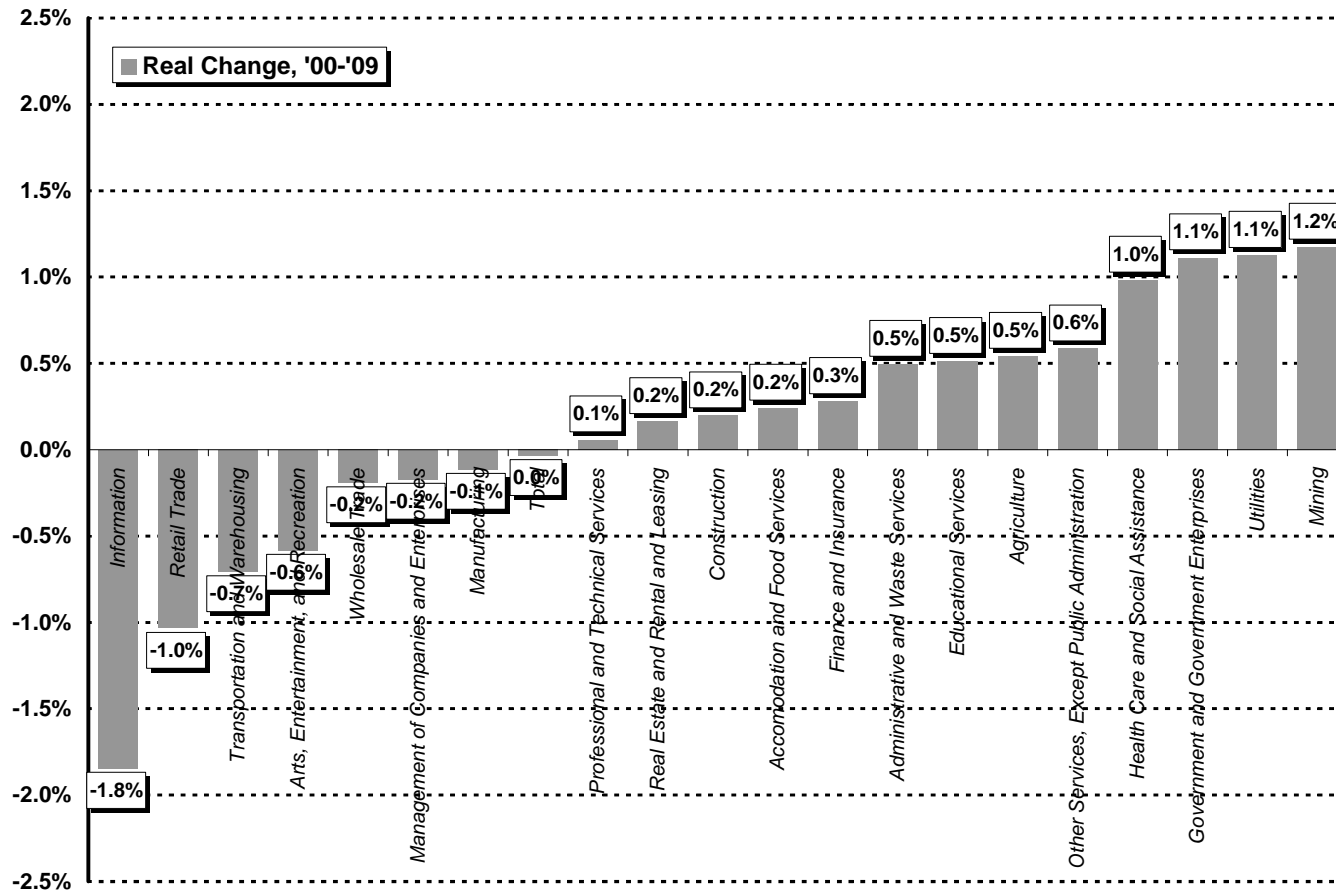
Home Ownership Rate



Real vs. Nominal Wage Growth, 1990-2009



Real Wage Change by Industry, 2000-2009



Role of Financing

- Conventional Loan Terms are now in constant flux
- Lenders have been reluctant to foreclose on properties
 - Pretend and Extend for past three years
- With stabilization of market pricing, will start to see more activity on distressed assets
- Until financial markets return, traditional affordable financing sources have seen substantial increase
 - HUD reports 79 percent increase, 2010 over 2009, in applications from developers for 221 (d) (4) financing
 - 2008 – 2,800 units
 - 2009 – 2,950 units
 - 2010 – 5,560 units

H + T Affordability Index

Housing Costs - % Income

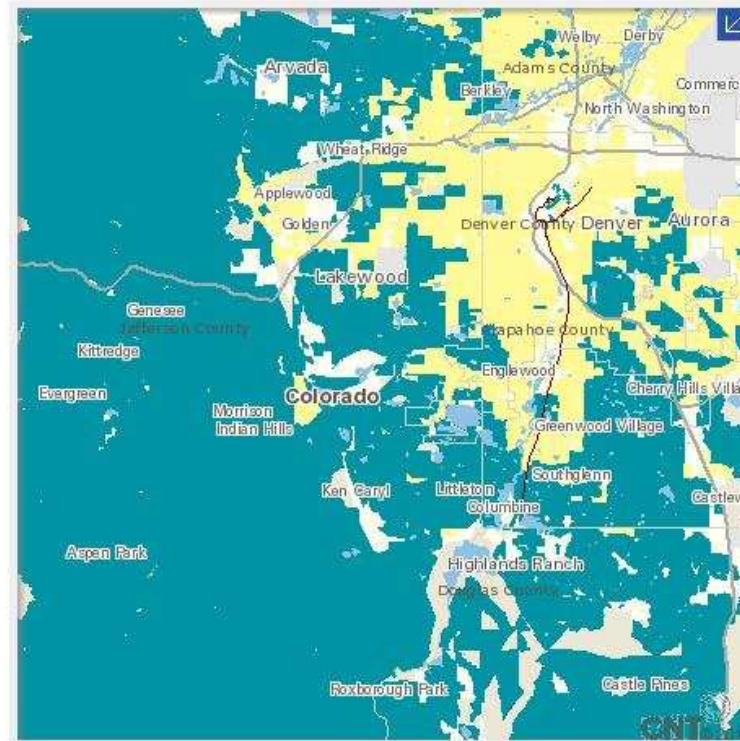
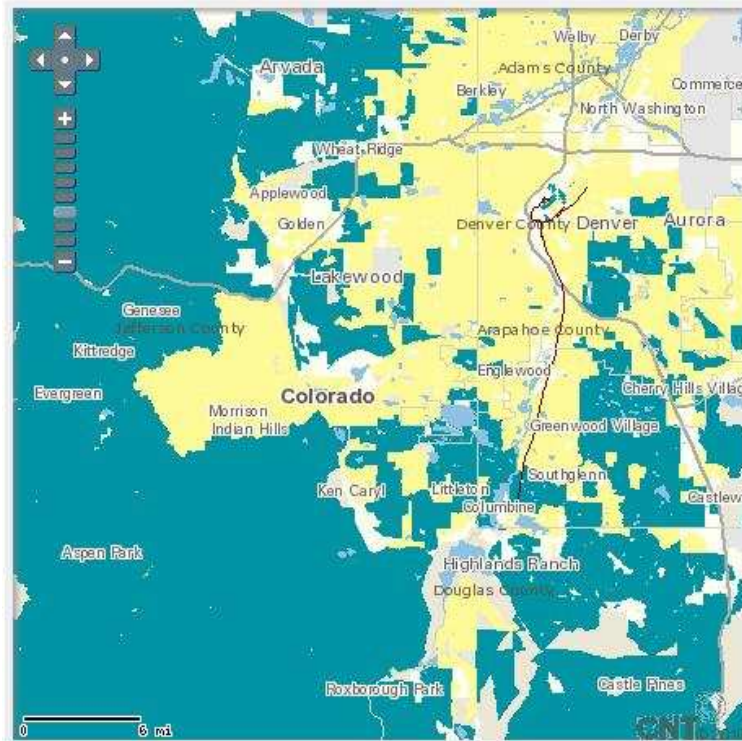
- Data Not Available
- Less than 30%
- 30% and Greater

Housing Costs factored as a percent of income has widely been utilized as a measure of affordability. Traditionally, a home is considered affordable when the costs consume no more than 30% of household income.

Housing and Transportation Costs - % Income

- Data Not Available
- Less than 45%
- 45% and Greater

H+T has been developed as a more complete measure of affordability beyond the standard method of assessing only Housing Costs. By taking into account both the cost of housing as well as the cost of transportation associated with the location of the home, H+T provides a more complete understanding of affordability. Dividing these costs by Representative Regional Incomes illustrates the



Source: Center for Neighborhood Technology